



Seattle Lighthouse

The Lighthouse for the Blind, Inc.

January 24, 2006

Committee for Purchase From People
Who Are Blind or Severely Disabled
1421 Jefferson Davis Highway
Jefferson Plaza 2, Suite 10800
Arlington, Virginia 22202-3259

Reference: Docket ID: fr16de05-22; NPA Governance and Executive Compensation

Ladies and Gentlemen:

The Seattle Lighthouse previously responded to the Committee's proposed rulemaking (since withdrawn) by letter dated January 6, 2005 (copy attached). At that time, we held a position in opposition to the proposed rulemaking as stated in the letter. The Lighthouse involvement in the JWOD program has been critical in providing meaningful jobs to people who are blind and Deaf-Blind.

Towards this end, The Lighthouse is in agreement with the Committee's actions to strengthen the JWOD program by encouraging and promoting various governance standards for NPAs participating in the JWOD program. At this point, and in line with our intent to cooperate with the Committee objectives, The Lighthouse would support the self-regulatory solution proposed by NIB and the alternate solution by NAEPB. In essence, the similar solution would require the following:

1. Development of standards of governance for nonprofit agencies through a joint effort of NIB and NAEPB and endorsed by the Committee.
2. The standards of governance would include guidelines for setting executive compensation. These standards should not include artificial relationships between executive pay and pay of line workers, but should only focus on accountable processes and guidelines for establishing executive compensation. Regarding the question of a relationship between executive compensation and Fair Market Price (FMP), this is a moot point because there is no direct connection since FMP is based on market information and competitive costs.

3. As part of its normal compliance review process, NIB would monitor and certify compliance by nonprofit agencies with governance standards similar to the current certification process which provides the Committee proof of compliance.

The Lighthouse appreciates the chance to submit these comments as part of our continuing efforts to provide the best possible service to people who are blind.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas M. Klan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Douglas M. Klan
Chairman of the Board

Att.

January 6, 2005

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Who Are Blind or Severely Disabled
1421 Jefferson Davis Highway
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Sent via USPS, Fax (703) 603-0655 Attn:
Mr. G. John Heyer, General Counsel
& E-mail rulecomments@jwod.gov

Re: Docket ID: 3037-AA00; Javits-Wagner-ODay Program: Nonprofit agencies and
central nonprofit agencies; governance standards

Ladies and Gentlemen:

Thank you for the opportunity to provide comments in regards to the proposed
governance standards pertaining to nonprofit agency governance and executive
compensation.

Introduction

Our agency is one of Seattle's oldest charitable organizations providing practical service
to people who are blind for over 85 years. Our mission is "to create and enhance
opportunities for independence and self-sufficiency of people who are blind, Deaf-Blind
and blind with other disabilities". The Lighthouse does this by providing manufacturing,
service and professional employment opportunities and training programs along with
other comprehensive support services all aimed to help these individuals become
active, self-sufficient and involved members of the community.

Without question, The Lighthouse participation in the JWOD program has been critical
in our ability to provide employment opportunities and services to many blind and Deaf-
Blind people. The Lighthouse, through the contracts generated from this program,
provides great paying jobs to over 105 blind and Deaf-Blind people.

Today's Lighthouse provides competitive jobs for 173 blind people; over one-half have
an additional severe disability besides blindness. We also take great pride in providing
employment opportunities to 37 Deaf-Blind people who benefit from training and support
services geared specifically for them.

Along with employment and training programs, The Lighthouse also offers training accommodation and rehabilitation services to the community-at-large. During 2004, over 600 blind and Deaf-Blind people benefited from various Lighthouse programs.

Our Position

The Lighthouse understands why the President's Committee felt the need to develop proposed regulations even though the impetus to do so is based on isolated instances of abuse.

The Board of Trustees of the Seattle Lighthouse fully understands and supports the need for guidelines to ensure that nonprofit organizations are held to the highest business and professional standards. The great majority of nonprofit agencies are concerned about isolated instances of abuse that could erode public trust thus affecting services, as in our case, to blind and Deaf-Blind people.

However, the Board of Trustees of the Seattle Lighthouse disagrees that the proposed rule changes regarding governance standards and executive compensation are necessary and the appropriate way to initiate change.

Our Rationale

The overall governance standards proposed are ill-conceived and unnecessary in light of our current governance practices, and the efforts of the Internal Revenue Service and of Congress to review federal law that governs nonprofit organizations especially in the areas of governance, transparency and accountability.

We question the Committee's statutory authority to assume regulatory oversight of governance standards for nonprofit organizations, such as, The Lighthouse, because there exist many federal and state entities currently regulating nonprofit organizations.

The Committee currently has specific powers and duties which directly advance the purpose of the JWOD Act, which is to increase the employment and training opportunities for people who are blind or have other severe disabilities. This, of course, is accomplished through the purchase of products and services from nonprofit agencies such as The Lighthouse.

The proposed rulemaking to expand authority to regulate internal governance and executive compensation of nonprofit organizations involved in the JWOD program does not advance the goals stated in the JWOD Act. There is no evidence established which shows how these proposed rules would result in increased employment and training for people who are blind and disabled. In fact, The Lighthouse believes that the proposed rules may impede employment and training opportunities for blind and disabled people

by adding compliance requirements which serve only to remove valuable resources of nonprofits from their mission.

To add another level of control, as proposed by the Committee, would be duplicative and unnecessary, adding a burden which would ultimately be nonproductive in carrying out the mission of The Lighthouse.

In addition, we would like to comment on the specific proposed rules which do not advance the purpose or mission of the JWOD program.

Recommendation and Comments on Rulemaking

We urge the Committee not to adopt these misguided regulations which are overreaching, unnecessary and not in the best interest of maintaining the JWOD program. These proposed rules would be burdensome to implement and maintain, and would provide misleading and confusing information with no value added to the program.

Board Turnover on a Recurring Schedule

This proposed rulemaking is unclear and confusing. The Lighthouse Board is elected to a specific term of years. Board members can be reelected for additional terms without a limit to the number of terms. As with any nonprofit board, one of The Lighthouse Board of Trustees' primary responsibilities is to insure that the board as a whole possesses the skills, experience, expertise and relationships within the community that will allow us to most effectively fulfill our mission. Artificially imposed term limits would lessen our flexibility and hamper our ability to create the board we feel is best suited for governing our nonprofit corporation at any given time. If the intention is to limit the number of terms, what would be the optimum level of turnover? If the intent is to shorten the amount of time an individual board member could serve, then we feel strongly that this would impede the obligation of the board to provide the best service and governance possible through the following ways:

1. Potentially negative to the continuity of the mission and to the influence of community involvement in The Lighthouse organization.
2. Term limits would greatly weaken the ability of our board members to lead through informed policy and guidance based on accumulated knowledge and awareness of issues only gained from a historical perspective.
3. Our system of board term election provides for the proper governance that nonprofit agencies, like The Lighthouse, need for the best stewardship of the agency's mission.
4. It is our experience that to provide the best fiduciary service, agencies need informed, stable and active board members without unnecessary rules regarding rotation.

5. Any changes in board compositions and tenure requirements will create an unwarranted burden on nonprofit agencies in terms of recruiting and training new volunteer board members, especially when considering the difficulty in finding prospective board members who are willing to accept the legal exposure which is part of today's environment.

We do not agree that board membership needs turnover on a recurring basis. The Lighthouse is too complex and value is added through its board members who have long-term experience with The Lighthouse. The responsibility for effective governance stems from strict adherence to a comprehensive Conflict of Interest policy. This policy serves The Lighthouse well by establishing a process which guarantees compliance to rigid governance standards. Again, it is our Board of Trustees' own responsibility to maintain a body whose composition provides effective governance and guidance in fulfilling our mission. An imposed limit on length of service would limit our ability to do so in the best way that we see fit.

Publishing of Minutes of Board Meetings

Regarding publishing of the minutes of board meetings, we do not agree that these minutes should be published or otherwise made available to the public. This proposed standard will have the unintended consequence of limiting open board discussion and the kind of necessary exchange of ideas and comments required for the healthy function of a board. As further consequences, this may expose the board to additional risk of liability, and create confusion as to whether meetings are open to the public. Publishing of board minutes would mean disclosing information which may place The Lighthouse at a competitive disadvantage in regard to contracts, business relationships and strategic plans. We believe that compliance with standard nonprofit reporting requirements, such as making the Form 990 available upon request, effectively provides transparency to the public.

Proposed Rule on Executive Compensation

We take exception to this proposed standard concluding the overall impact will be to reduce our ability to attract and retain qualified personnel. To establish compensation benchmarked to a senior executive service (SES), career federal employee (\$207,000) level does not make sense. The nonprofit CEO and SES work under completely different environments and responsibilities. The job descriptions are vastly different with differing qualifications and responsibilities.

Because agency CEO's are asked to perform at levels similar to executives of for-profits, The Lighthouse must compete with for-profit organizations, as well as nonprofits, to attract talented executives needed to run our operations. To attract these individuals, The Lighthouse has a Board Compensation Committee which has developed compensation philosophy and policy designed to provide equitable, competitive and

fiscally responsible pay and benefits to all employees and understands completely the need to provide competitive compensation packages for senior management.

Another primary responsibility of the Board of Trustees is to hire and evaluate the chief executive officer. By limiting our ability to attract and retain the most qualified individuals for top management positions, the Committee would hinder our ability to fulfill our responsibilities to the organization and our mission.

Summary

The proposed rules are not the appropriate mechanism to affect change on issues such as governance, especially when considering the Committee's own comments – "overwhelming majority of JWOD-affiliates central nonprofit agencies and nonprofit agencies operate in an ethical and accountable manner". Isolated instances of abuse do not provide the authority for rulemaking by the Committee when no clear mandate exists. Congress, through the Senate Finance Committee, is reviewing the issue of governance standards for nonprofits. Oversight of financial and governance issues, including executive compensation, currently resides with the Internal Revenue Service which has authority to sanction nonprofits not in compliance with applicable laws and regulations. The unintended consequences of the proposed regulations, which hamper our ability to fulfill our responsibilities as board members, is to introduce non-value added requirements to the current compliance criteria.

We are opposed to the proposed rule changes that if approved, would only serve to weaken the effectiveness of JWOD program and the participating JWOD agencies. Over the years, it has been our goal to eliminate obstacles which keep blind and Deaf-Blind people from becoming competitively employed and full members of the community. This rulemaking will create obstacles and will ultimately result in the reduced provision of services and employment opportunities for blind people.

Respectfully submitted,

Douglas M. Klan
Chairman of the Board

cc Janet Yandik, Information Management Specialist
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